

**COON RAPIDS MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF COON RAPIDS**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2008**

COON RAPIDS MUNICIPAL UTILITIES

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COON RAPIDS MUNICIPAL UTILITIES

OFFICIALS

Name	Position	Term Expires
Mike Deeth	Chairman	June 2012
Larry Taylor	Trustee	June 2008
Dierk Halverson	Trustee	June 2010
Bradley Honold	Secretary/General Manager	Indefinite
Kari Woodard	Comptroller	Indefinite
Jesica Leighty	City Clerk / City Treasurer	Indefinite
Mark Thomas	Attorney	Indefinite

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INDEPENDENT AUDITORS' REPORT

Coon Rapids Municipal Utilities
Coon Rapids, Iowa

We have audited the accompanying financial statements of the business type activities of each major fund of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, as of and for the year ended June 30, 2008, which collectively comprise the Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of Coon Rapids Municipal Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, the financial statements of Coon Rapids Municipal Utilities are intended to present the financial position and results of operations and cash flows of proprietary fund types of only that portion of the financial reporting entity of the City of Coon Rapids, Iowa, that is attributable to the transactions of the Coon Rapids Municipal Utilities.


In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of each major fund of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, as of June 30, 2008, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008, on our consideration of Coon Rapids Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 38 through 40, respectively, are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion of the financial statements that collectively comprise Coon Rapids Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007, (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 3 and 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

By 

Certified Public Accountant

November 21, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion and Analysis

The Coon Rapids Municipal Utilities, "CRMU" provides this narrative overview and analysis of the Communications, Electric, Natural Gas, Water, and Wastewater Utilities' financial activities based upon currently known facts, decisions, and conditions for the fiscal year ended June 30, 2008. This should be read in conjunction with the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets, and the Statement of Cash Flows, which follow.

The Financial Statements of the Utility report information utilizing the accrual method of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America.

The Statement of Net Assets provides information about the type and amount of investments in resources (assets) and the obligations to creditors (liabilities), and also

indicate those restricted by the Board of Communications, Electric, Natural Gas, Water, and Wastewater Trustees (the Board). It also provides the basis for making a variety of financial assessments about the structure, liquidity, and financial flexibility of the Utility.

The Statement of Revenues, Expenses, and Changes in Net Assets reports all the revenues and expenses for the year, including nonoperating revenues and expenses. This statement can be used to determine whether the Utility has recovered all of its actual costs through rates and other charges.

The Statement of Cash Flows reports the cash from operating activities, cash from non-capital financing activities, as well as capital and related financing activities, and investing activities. This statement can be used to determine the source, use and change in cash.

Communications Utility

Overview:

CRMU's communication utility continues to serve residents and businesses of Coon Rapids with reliable products and services. Although the utility operates in a highly competitive market, CRMU has been able to maintain its competitive advantage through reasonable rates and excellent customer service.

CRMU has worked towards expanding its offerings and services to help generate additional revenue to offset costs incurred due to the always-changing nature of the technology industry.

The communication utility has performed well over the last several years, considering several significant factors (loss of a large user, much lower access rates, competition with other carriers, etc.). CRMU was able to lower the single-line residential telephone rate by \$4 after the Long Lines contract negotiation.

To be successful in the future, CRMU must be responsive to its customer's wants and needs while continuing to provide new and innovative products to help supplement the traditional revenue stream.

Communications Utility Financial Highlights:

Dollars in Thousands

	2008	2007
OPERATIONS		
Revenues	790	914
Expenses	569	758
Operating Income	221	156
ASSETS		
Current	957	897
Restricted	0	0
Capital	118	98
Noncurrent	0	0
Total	1,075	995
LIABILITIES		
Current	34	29
Noncurrent	0	0
Total	34	29
NET ASSETS		
Invested in Capital Assets	118	98
Unrestricted	923	868
Total	1,041	966
Total Liabilities & Net Assets	1,075	995

Results of Operations:

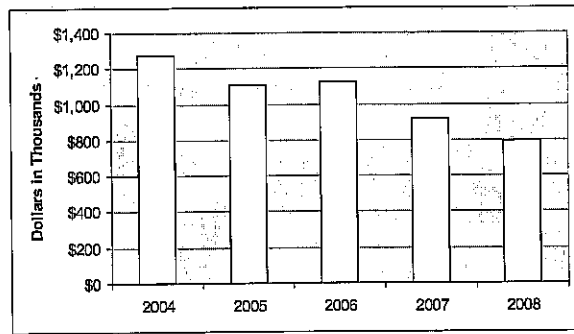
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

Revenue from operations decreased by 14% while total operating expenses followed, decreasing by 25%. The decline in revenue can be attributed to a reduction of line counts, as well as lower CABS revenue.

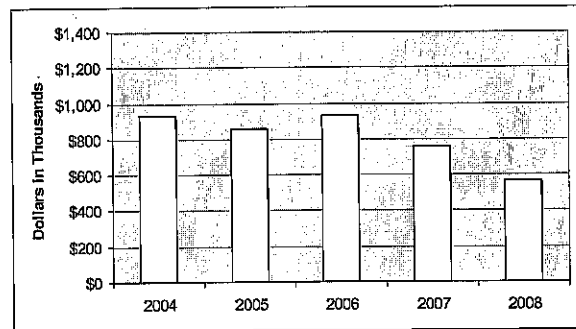
Expenses for the communication utility were lower for several reasons. First, the Long Lines contract was re-negotiated realizing a decline in expenses. Second, the utility had only one tech for seven months out of the year. Finally, CRMU was able to settle and receive final payment on an account that was previously considered uncollectible.

The communication utility has benefited from offering bundled services, instead of only ala carte services. CRMU is currently analyzing additional bundles to entice customers to sign-up for *all* services (calling features, high-definition television, long distance, etc.)

Communications Utility Operating Revenues: \$790,369



Communications Utility Operating Expenses: \$569,233



Financial Position:

(As reported on the Statement of Net Assets)

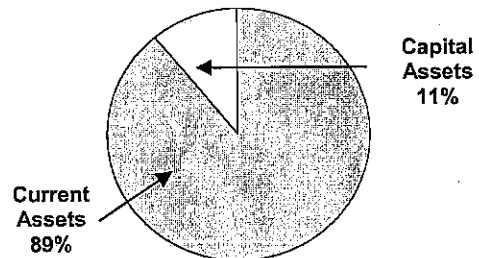
Total assets increased by 7% in fiscal year 2008. This can be attributed to both an increase in cash and telephone capital assets. Total liabilities increased 18% simply because CRMU had more accounts payable at the end of fiscal year 2008 compared to fiscal year 2007. Total net assets increased 8%.

The communication utility has no noncurrent or restricted assets. Capital assets, in the form of utility plant, facilities and equipment, account for 11% of total assets, while current assets comprise 89% of the total assets.

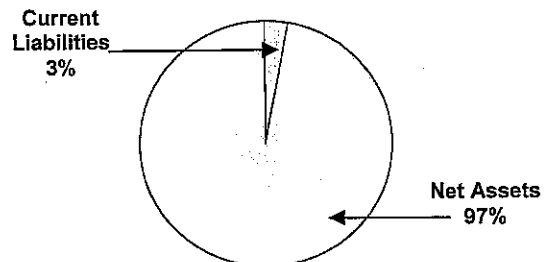
For a startup utility in late 1999, the communication utility has a sound financial base as it has entrenched itself with its service offerings providing high quality, needed services in the community. Yet, CRMU must closely monitor changes within the industry to remain competitive and desirable to its customers.

Both revenues and expenses were lower than budget by \$72,000 and \$125,000, respectively.

Communication Utility Total Assets: \$1,074,725



Communication Utility Total Liabilities and Net Assets: \$1,074,725



Electric Utility

Overview:

In 2008, CRMU realized a net operating gain and ended the year in a strong financial position.

On the nonoperating revenue side, CRMU received a \$300,000 grant from the United States Department of Agriculture Rural Economic Development Loan / Grant Program. CRMU matched 20% of the grant with \$60,000 from the economic development fund. A \$300,000 interest free loan was given to the Thomas Rest Haven for their assisted living facility. A loan was also awarded to the Coon Rapids Medical Center to aid in bringing a dentist to Coon Rapids. This is just one example of the positive impact CRMU has on the Coon Rapids community.

Looking to the future, CRMU will likely see volatility in the electric industry, with imminent environmental standards. Fortunately, both Iowa Savings Bank capital loan notes are scheduled to be retired in 2015.

Electric Utility Financial Highlights:

Dollars in Thousands

	2008	2007
OPERATIONS		
Revenues	2,273	2,110
Expenses	1,848	1,885
Operating Income	425	225
ASSETS		
Current	2,650	2,477
Restricted	13	15
Capital	7,048	7,252
Noncurrent	650	179
Total	10,361	9,923
LIABILITIES		
Current	414	389
Noncurrent	2,540	2,890
Total	2,954	3,279
NET ASSETS		
Invested in Capital Assets	4,497	4,103
Restricted for:		
Bond/Note Retirement	48	15
Bond/Note Covenants	0	0
Unrestricted	2,862	2,526
Total	7,407	6,644
Total Liabilities & Net Assets	10,361	9,923

Results of Operations:

(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

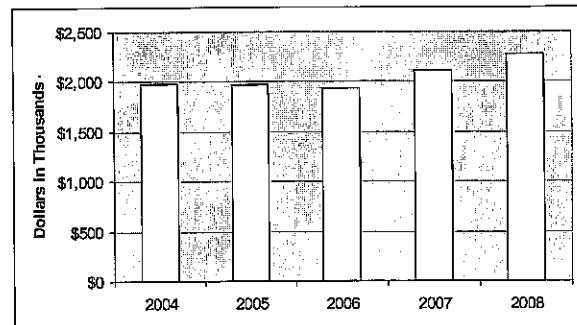
Revenue from operations increased 8%, while both revenue and kilowatt-hours sold to customers increased by 6%. Wholesale kilowatt-hours sold decreased 7%; however, revenue from wholesale sales actually increased 11%.

Operating expenses decreased due to lower general maintenance and Neal 4 purchased energy expenses. CRMU will likely experience an increase in purchased energy expense, as WAPA has announced another rate increase for January 1, 2009. The electric utility will also see increased expenses as new environmental mandates and "green" programs are required by the government.

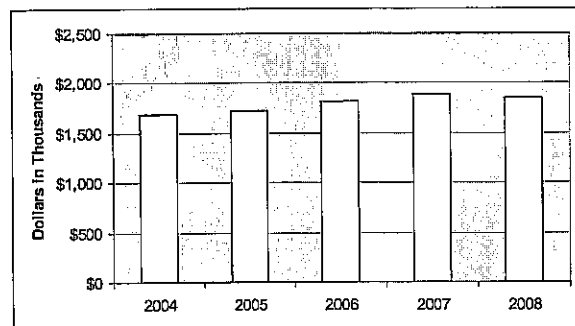
Net nonoperating revenues increased \$311,000 from the previous year. This is explained by the previously discussed grant received from the USDA Rural Economic Development Program.

Currently, the electric utility is developing a long range plan for distribution system improvements. During such time, a rate study will likely take place to determine the equity of the current rate structure.

Electric Utility Operating Revenues: \$2,272,816



Electric Utility Operating Expenses: \$1,847,763



Financial Position:

(As reported on the Statement of Net Assets)

CRMU has two significant noncurrent liabilities – a 2003 and 2006 capital loan note. In 2008, CRMU reduced the liability of each obligation by \$110,000 and \$240,000, respectively.

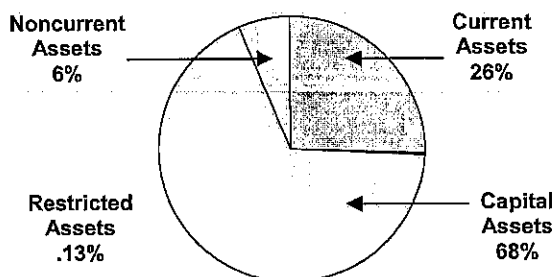
Noncurrent assets increased 263% due to the new loan receivable due from Thomas Rest Haven, a receivable due from the Coon Rapids Medical Board, and capitalization of the new municipal building roof. The Coon Rapids Development Group's receivable was decreased by 11,000 and TIF was decreased by \$9,000.

Capital assets, in the form of utility plant, facilities and equipment, account for 68% of CRMU's total assets.

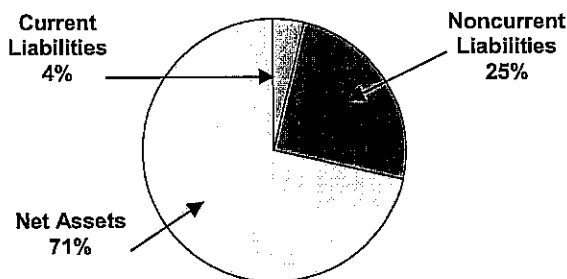
CRMU has approximately 19% of its total assets in the form of cash and cash equivalents. Of this amount, the Board of Trustees has allocated the majority for designated uses such as equipment replacement, generation replacement, health fund plan, etc., leaving only a small portion of its current assets undesignated.

Revenues and expenses were higher than budget by \$483,000 and \$6,000, respectively.

Electric Utility Total Assets: \$10,360,920



Electric Utility Total Liabilities and Net Assets: \$10,360,920



Natural Gas Utility

Overview:

Over the past few years, CRMU has experienced increased energy and transportation costs. This national pattern of rising energy costs illustrates the price volatility of the natural gas commodity market in a deregulated environment.

In efforts to limit exposure to this market, CRMU follows a commodity purchasing strategy with the goal of forward purchasing roughly 50% of its annual requirements prior to the winter heating season. This purchasing strategy consists of a mixed portfolio of commodity purchases ranging from futures contracts, to storage, to fixed monthly and spot volume purchases.

CRMU also optimizes its storage contract to help balance its daily volumes to avoid any monthly imbalance penalties from the pipeline.

CRMU is currently waiting for the "most opportune" time to enter into a long-term pre-pay program to help reduce energy costs. This savings would be passed through directly to the consumer.

Natural Gas Utility Financial Highlights:

Dollars in Thousands

	2008	2007
OPERATIONS		
Revenues	1,288	957
Expenses	1,198	1,012
Operating Income	90	(55)
ASSETS		
Current	1,478	1,234
Restricted	0	0
Capital	486	764
Noncurrent	420	288
Total	2,384	2,286
LIABILITIES		
Current	61	24
Noncurrent	0	0
Total	61	24
NET ASSETS		
Invested in Capital Assets	862	480
Unrestricted	1,461	1,782
Total	2,323	2,262
Total Liabilities & Net Assets	2,384	2,286

Results of Operations:

(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

In 2008, total operating revenues increased 35%. Syngenta Seeds operated both the town and South plant, increasing both usage and revenues. Purchased energy costs increased 21% due to increased usage.

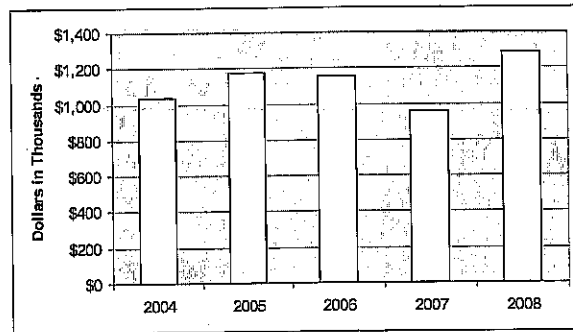
Total operating expenses increased \$185,000, or 18%. Of the \$185,000, \$164,000 (89%) is associated with purchased energy (a direct result of more demand). Additionally, administrative and general expenses increased, while distribution operations decreased.

Nonoperating revenues declined 18% in 2008. This change can be attributed to higher municipal building expense, as well as a one-time charge due to a loss realized on disposed assets no longer serviceable.

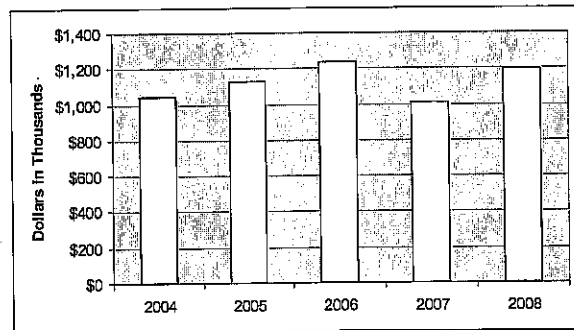
CRMU continued with its contributions to the community and City of Coon Rapids by recognizing a net transfer out of \$71,000 in 2008.

Revenues and expenses were lower than budget by \$49,000 and 28,000, respectively.

Natural Gas Utility Operating Revenues: \$1,287,890



Natural Gas Utility Operating Expenses: \$1,197,454



Financial Position:

(As reported on the Statement of Net Assets)

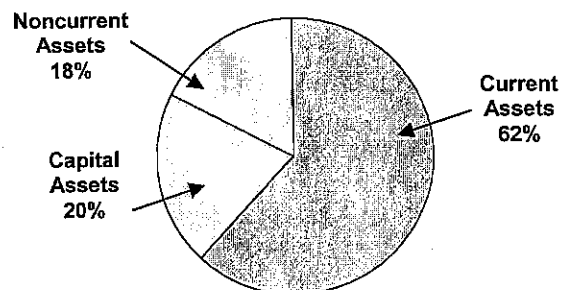
The Natural Gas Utility has no significant noncurrent liabilities. CRMU's current liabilities are comprised of payables totaling \$54,000.

Noncurrent assets increased 46% mainly due to capitalization of the new municipal building roof (split between electric and gas). Loan receivables from the City of Coon Rapids for a bridge loan, and a tax increment financing (TIF) loan were reduced.

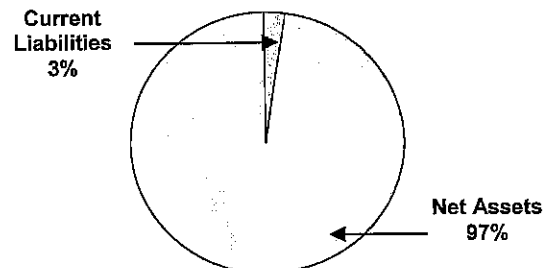
Capital assets, in the form of utility plant, facilities and equipment, account for 20% of CRMU's total assets, while current assets comprise 62% of the total. Cash, cash equivalents, and certificates of deposit account for 54% of total assets. The majority of these funds are designated for future utility improvements.

The gas utility maintains a strong financial position. After several years of using reserves to cover losses, CRMU restructured rates to allocate fixed costs based on usage, which has proven to be beneficial for both the utility and residential customers.

Natural Gas Utility Total Assets: \$2,383,942



Natural Gas Utility Total Liabilities and Net Assets: \$2,383,942



Water Utility

Overview:

For the past few years, CRMU has operated its water utility with very slight margins while continuing to make much needed and necessary system improvements. The result of these activities has put a financial strain on the small reserves of the water utility. In 2008, the water utility ended with an operating income of \$10,000.

Protecting and preserving the water quality for Coon Rapids is a primary concern of CRMU. CRMU has been very fortunate through the years with an abundant water supply of good quality drinking water. This has served the water utility well, as CRMU has experienced minimal financial impacts due to increased testing promulgated by the Safe Drinking Water Act. However, this past year, the Iowa DNR mandated that we test for arsenic, which will increase testing costs.

CRMU is also fortunate to have four certified operators on staff, while some communities struggle to keep one.

Water Utility Financial Highlights:

Dollars in Thousands

	2008	2007
OPERATIONS		
Revenues	225	153
Expenses	215	223
Operating Income	10	(70)
ASSETS		
Current	209	145
Restricted	0	0
Capital	445	470
Noncurrent	2	13
Total	656	629
LIABILITIES		
Current	36	19
Noncurrent	0	0
Total	36	19
NET ASSETS		
Invested in Capital Assets	445	470
Unrestricted	175	140
Total	619	610
Total Liabilities & Net Assets	656	629

Results of Operations:

(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

Revenue from operations increased \$72,000 (47%) due to a rate restructuring at the beginning of fiscal year 2008. The water rates are no longer designed with a declining block structure.

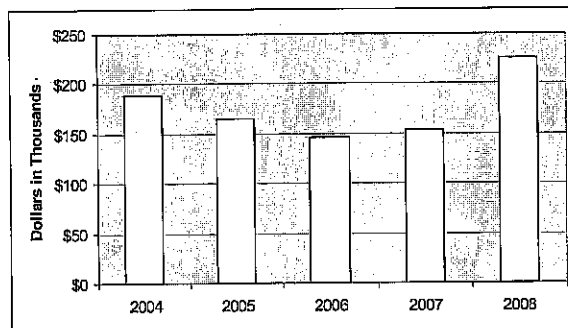
Operating expenses decreased 4%, a result of lower expenses in plant operations, customer service, administrative and general, and depreciation. Considering the restructuring of rates and lower expense, the utility ended with a net gain of \$10,000.

Nonoperating gains totaled \$9,000, adding to the operating gain for a total of \$19,000.

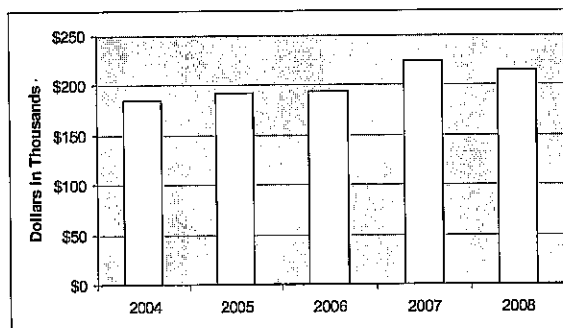
CRMU continued with contributions through payment in-lieu-of-tax for a total of \$5,900, a 16% decline from the previous year.

Overall, the utility performed well, and CRMU hopes to begin rebuilding savings and reserve accounts for future improvements and repairs.

Water Utility Operating Revenues: \$225,448



Water Utility Operating Expenses: \$215,495



Financial Position:

(As reported on the Statement of Net Assets)

Noncurrent assets decreased by 81% in 2008 due to a reduction in a tax increment financing loan receivable from the City of Coon Rapids.

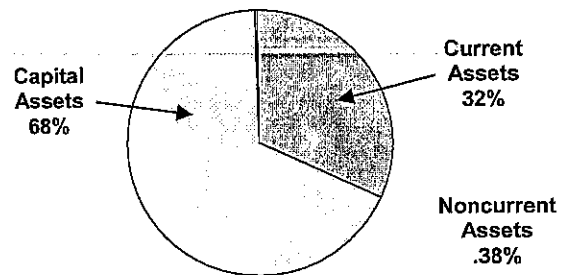
Capital assets, in the form of utility plant, facilities and equipment, account for over 68% of CRMU's total assets. CRMU's total assets increased 4% (\$27,000) in 2008.

CRMU has approximately 22% of its total assets in the form of cash and cash equivalents. Of this amount, the Board of Trustees has designated uses for all of it. Assuming the utility continues to operate at a profit, these funds should begin to rebuild.

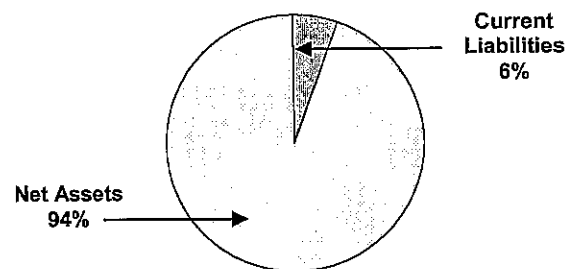
The water utility has no significant liabilities, other than normal payables. For the year, total liabilities and net assets increased 4%.

Revenues and expenses were lower than budget by \$4,000 and \$10,000, respectively.

Water Utility Total Assets: 655,712



Water Utility Total Liabilities and Net Assets: \$655,712



Wastewater Utility

Overview:

In 2008, the wastewater utility realized an operating loss of \$4,000. Including nonoperating revenues (primarily interest income), the utility ended with a net income of \$73,000. It is clear that without the strong reserves (and therefore interest income) of the wastewater utility, a rate adjustment would be necessary.

CRMU's reserves will be reduced in the future, as an agreement was recently signed with Veenstra & Kimm to develop a plan for improving the lift station and force main. Additionally, CRMU purchased a camera to televise the wastewater system, with the goal of making the most effective and necessary improvements to the mains. The televising of the collection system will begin in fiscal year 2009.

Wastewater Utility Financial Highlights:

Dollars in Thousands

	2008	2007
OPERATIONS		
Revenues	108	109
Expenses	112	124
Operating Income	(4)	(15)
ASSETS		
Current	1,452	1,330
Restricted	0	0
Capital	614	611
Noncurrent	91	147
Total	2,157	2,088
LIABILITIES		
Current	7	7
Noncurrent	0	0
Total	7	7
NET ASSETS		
Invested in Capital Assets	614	611
Unrestricted	1,536	1,470
Total	2,150	2,081
Total Liabilities & Net Assets	2,157	2,088

Results of Operations:

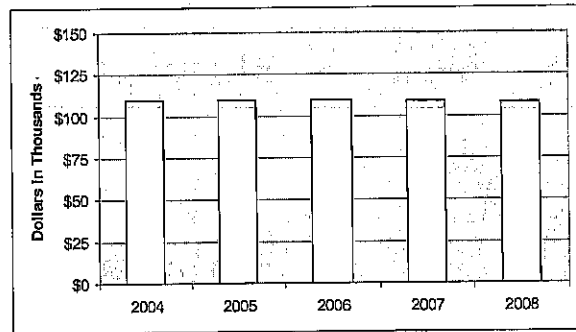
(As reported in the Statements of Revenues, Expenses and Changes in Fund Net Assets)

In 2008, the wastewater utility recorded \$108,000 in revenues. Wastewater revenues have been extremely consistent throughout the years, varying less than 5% over the past five years.

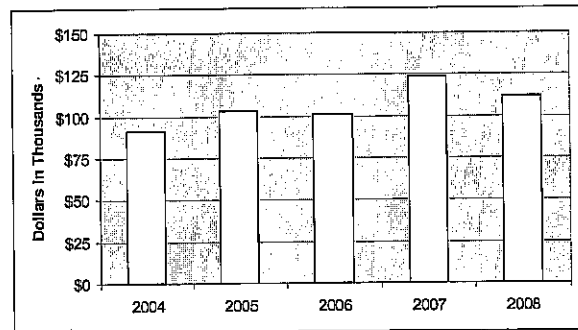
Total operating expenses in 2008 were down \$12,000 compared to 2007 when CRMU had to purchase chemicals and repair the lift station motor and impeller. Lower plant operating expenses account for the majority of the decline. Expenses for 2008 are more in-line with previous years.

Nonoperating revenues increased by \$18,000 in 2008 (from 59,000 to \$77,000) due to higher interest income. Considering both operating and nonoperating revenues and expenses, the utility ended with a net income of \$73,000, a 64% increase compared to 2007.

Wastewater Utility Operating Revenues: \$107,641



Wastewater Utility Operating Expenses: \$111,524



Financial Position:

(As reported on the Statement of Net Assets)

Noncurrent assets decreased by 38% in 2008, mainly due to reductions in loan receivables from the City of Coon Rapids for a bridge loan, and a tax increment financing (TIF) loan.

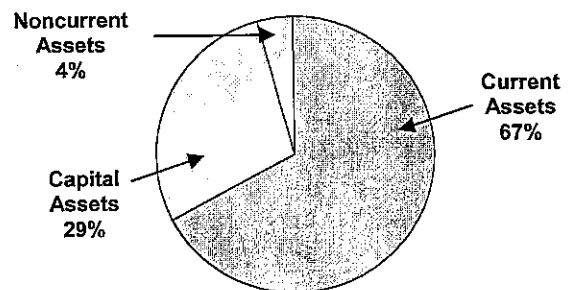
Capital assets, in the form of utility plant, facilities and equipment, account for 29% of CRMU's total assets, while current assets account for 67%.

The wastewater utility has 64% of its total assets in the form of cash, cash equivalents, and certificates of deposit. A large portion of this will be used for improvements previously explained.

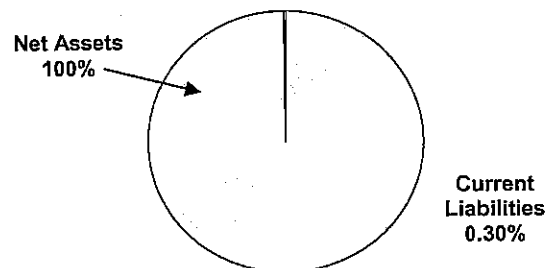
The wastewater utility essentially has no liabilities other than some small payables.

Revenues were \$25,000 higher than budget, while expenses were \$9,000 lower than budget.

Wastewater Utility Total Assets: \$2,156,600



Wastewater Utility Total Liabilities and Net Assets: \$2,156,600



BASIC FINANCIAL STATEMENTS

COON RAPIDS MUNICIPAL UTILITIES

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008**

ASSETS	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
CURRENT ASSETS:		
Cash and Invested Cash	\$ 715,883	\$ 181,978
Accounts Receivable, Net of Allowance -		
Trade	16,574	16,405
Other	22,174	347
Loans Receivable, Current Portion	-	-
Inventories	808	640
Other Current and Prepaid Assets	<u>2,340</u>	<u>-</u>
Total Current Assets	757,779	199,370
CAPITAL ASSETS:		
Utility Plant, Facilities and Equipment, at Cost	37,376	327,078
Accumulated Depreciation	<u>(7,736)</u>	<u>(239,142)</u>
Total Capital Assets, Net	29,640	87,936
NONCURRENT ASSETS:		
NIMECA Patronage Dividend Receivable	-	-
Loans Receivable, Net of Current Portion Above -		
From City of Coon Rapids	-	-
From Tax Increment Financing	-	-
Revolving Loans Receivable -		
From City of Coon Rapids	-	-
From Coon Rapids Medical Center	-	-
Municipal Building, Equipment and Land, Net of		
Accumulated Depreciation	<u>-</u>	<u>-</u>
Total Noncurrent Assets	-	-
 Total Assets	 <u>\$ 787,419</u>	 <u>\$ 287,306</u>

See Independent Auditors' Report and Notes to Financial Statements.

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 2,004,558	\$ 1,285,797	\$ 142,437	\$ 1,385,173	\$ 5,715,826
166,828	67,303	39,613	17,677	324,400
42,164	10,815	3,313	13	78,826
38,547	44,702	8,025	48,248	139,522
342,777	60,599	11,821	175	416,820
<u>68,236</u>	<u>9,046</u>	<u>3,772</u>	<u>476</u>	<u>83,870</u>
2,663,110	1,478,262	208,981	1,451,762	6,759,264
11,769,474	1,100,285	1,360,246	1,698,683	16,293,142
<u>(4,721,849)</u>	<u>(614,416)</u>	<u>(915,997)</u>	<u>(1,084,757)</u>	<u>(7,583,897)</u>
7,047,625	485,869	444,249	613,926	8,709,245
17,931	-	-	-	17,931
-	33,678	-	84,242	117,920
2,055	10,497	2,482	6,670	21,704
272,222	-	-	-	272,222
22,500	-	-	-	22,500
<u>335,477</u>	<u>375,636</u>	<u>-</u>	<u>-</u>	<u>711,113</u>
650,185	419,811	2,482	90,912	1,163,390
<u>\$ 10,360,920</u>	<u>\$ 2,383,942</u>	<u>\$ 655,712</u>	<u>\$ 2,156,600</u>	<u>\$ 16,631,899</u>

(Continued)

COON RAPIDS MUNICIPAL UTILITIES

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008**

LIABILITIES	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
CURRENT LIABILITIES:		
Accounts Payable - Trade	\$ 14,895	\$ 11,879
Other Payables and Credits	4	-
Payroll, Sales and Use Taxes Payable	-	-
Compensated Absences Payable	3,019	4,294
Customer Deposits	-	-
Electric Capital Notes Payable, Current Portion	-	-
Accrued Interest	-	-
Total Current Liabilities	17,918	16,173
LONG-TERM LIABILITIES, NET OF CURRENT PORTION:		
Electric Capital Notes Payable, Series 2006	-	-
Electric Capital Notes Payable, Series 2003	-	-
Total Long-term Liabilities	-	-
Total Liabilities	17,918	16,173
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	29,640	87,974
Restricted	-	-
Unrestricted	739,861	183,159
Total Net Assets	769,501	271,133
Total Liabilities and Net Assets	\$ 787,419	\$ 287,306

See Independent Auditors' Report and Notes to Financial Statements.

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 18,049	\$ 54,579	\$ 21,253	\$ 4,813	\$ 125,468
14,824	-	9,996	-	24,824
2,585	287	1,160	69	4,101
14,174	6,464	4,068	1,632	33,651
9,950	-	-	-	9,950
350,000	-	-	-	350,000
4,738	-	-	-	4,738
<u>414,320</u>	<u>61,330</u>	<u>36,477</u>	<u>6,514</u>	<u>552,732</u>
1,370,000	-	-	-	1,370,000
<u>1,170,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,170,000</u>
<u>2,540,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,540,000</u>
2,954,320	61,330	36,477	6,514	3,092,732
4,497,079	861,505	444,249	613,927	6,534,374
48,273	-	-	-	48,273
<u>2,861,248</u>	<u>1,461,107</u>	<u>174,986</u>	<u>1,536,159</u>	<u>6,956,520</u>
7,406,600	2,322,612	619,235	2,150,086	13,539,167
<u>\$ 10,360,920</u>	<u>\$ 2,383,942</u>	<u>\$ 655,712</u>	<u>\$ 2,156,600</u>	<u>\$ 16,631,899</u>

COON RAPIDS MUNICIPAL UTILITIES

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
OPERATING REVENUES:		
Sales to Customers	\$ 446,825	\$ 339,177
Sales for Resale	-	-
Interdepartmental Sales	-	-
Forfeited Discounts	3,855	-
Rebates and Other	-	510
Total Operating Revenues	<u>450,680</u>	<u>339,687</u>
OPERATING EXPENSES:		
Purchased Energy and Programming	159,839	174,731
Plant Operations	11,647	9,510
Transmission Operations	-	-
Distribution Operations	16,053	30,124
Consumer Service Operations	(327)	20,136
Administrative and General Expenses	81,368	52,910
Depreciation	2,295	10,947
Total Operating Expenses	<u>270,875</u>	<u>298,358</u>
Operating Income (Loss)	179,805	41,329
NONOPERATING REVENUES (EXPENSES):		
Interest Income	29,311	6,847
Joint Use Revenue (Expense)	(172,992)	-
Municipal Building - Rent and Expense Reimbursement	-	-
Merchandise Sales - Net	(65)	75
USDA Economic Development Grant	-	-
Gain (Loss) on Sale or Disposal of Assets	-	(3,952)
Miscellaneous Nonoperating Revenue (Expense)	103	1,376
Interest Expense	-	-
Municipal Building Expense	-	-
Net Nonoperating Revenues (Expenses)	<u>(143,643)</u>	<u>4,346</u>
Income (Loss) before Transfers	36,162	45,675
TRANSFERS IN (OUT):		
In-Lieu-Of Tax Payments	(4,004)	(209)
Free Community Service	(2,208)	(856)
Net Transfers In (Out)	<u>(6,212)</u>	<u>(1,065)</u>
Change in Net Assets	29,950	44,610
Total Net Assets - July 1, 2007	739,551	226,523
Total Net Assets - June 30, 2008	<u>\$ 769,501</u>	<u>\$ 271,133</u>

See Independent Auditors' Report and Notes to Financial Statements

EXHIBIT B

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 1,430,329	\$ 1,277,627	\$ 219,202	\$ 107,338	\$ 3,820,498
762,376	-	-	-	762,376
74,014	6,271	4,813	-	85,098
5,262	3,302	663	303	13,385
835	690	770	-	2,805
<u>2,272,816</u>	<u>1,287,890</u>	<u>225,448</u>	<u>107,641</u>	<u>4,684,162</u>
635,168	934,760	-	-	1,904,498
378,290	24,851	71,738	14,792	510,828
89,238	-	-	-	89,238
129,757	69,658	35,707	18,407	299,706
62,422	31,318	20,441	8,122	142,112
227,866	108,276	51,172	24,536	546,128
325,022	28,591	36,437	45,667	448,959
<u>1,847,763</u>	<u>1,197,454</u>	<u>215,495</u>	<u>111,524</u>	<u>3,941,469</u>
425,053	90,436	9,953	(3,883)	742,693
102,516	63,640	5,023	77,252	284,589
175,992	-	-	-	3,000
12,345	5,165	3,636	-	21,146
7,515	2,159	437	95	10,216
300,000	-	-	-	300,000
-	(11,560)	-	-	(15,512)
(3,031)	379	110	12	(1,051)
(121,833)	-	-	-	(121,833)
(17,389)	(18,850)	-	-	(36,239)
<u>456,115</u>	<u>40,933</u>	<u>9,206</u>	<u>77,359</u>	<u>444,316</u>
881,168	131,369	19,159	73,476	1,187,009
(91,414)	(47,113)	(5,836)	(520)	(149,096)
(27,266)	(24,138)	(4,338)	(4,189)	(62,995)
<u>(118,680)</u>	<u>(71,251)</u>	<u>(10,174)</u>	<u>(4,709)</u>	<u>(212,091)</u>
762,488	60,118	8,985	68,767	974,918
6,644,112	2,262,494	610,250	2,081,319	12,564,249
<u>\$ 7,406,600</u>	<u>\$ 2,322,612</u>	<u>\$ 619,235</u>	<u>\$ 2,150,086</u>	<u>\$ 13,539,167</u>

COON RAPIDS MUNICIPAL UTILITIES

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers and Users	\$ 455,551	\$ 334,535
Cash Received from Interdepartmental Sales	-	-
Cash Received (Paid) from Other Revenues (Expenses) - Net	(172,954)	1,451
Cash Paid to Suppliers for Goods and Services	(232,959)	(204,214)
Cash Paid to Employees	(32,576)	(84,784)
Cash Paid for Interdepartmental Services	-	-
Cash Paid for In-Lieu-of-Tax Payments	(4,004)	(209)
Net Cash Flow from Operating Activities	13,058	46,779
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfers to City of Coon Rapids - Free Community Service	(2,208)	(856)
Net Municipal Building Expense	-	-
Increase in Patronage Dividend Receivable	-	-
Increase in Customer Deposits	-	-
Net Cash Flow from Noncapital Financing Activities	(2,208)	(856)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital and Construction in Progress Expenditures	(25,879)	(6,934)
Principal Payments on Long-term Debt	-	-
Interest Paid on Debt	-	-
Net Cash Flow from Capital and Related Financing Activities	(25,879)	(6,934)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments	29,311	6,847
Cash Received from Grant Revenue	-	-
Principal Received on -		
City of Coon Rapids Loan	-	-
Coon Rapids Development Loans	-	-
Tax Increment Financing	-	-
Coon Rapids Development Loans made	-	-
Net Cash Flow from Investing Activities	29,311	6,847
Net Increase in Cash and Cash Equivalents	14,282	45,836
Cash and Cash Equivalents - July 1, 2007	701,601	136,142
Cash and Cash Equivalents - June 30, 2008	<u>\$ 715,883</u>	<u>\$ 181,978</u>

See Independent Auditors' Report and Notes to Financial Statements.

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 2,205,095	\$ 1,245,677	\$ 201,753	\$ 106,176	\$ 4,548,787
74,014	6,271	4,813	-	85,098
192,821	7,703	4,183	95	33,299
(1,287,967)	(965,362)	(64,339)	(26,978)	(2,781,819)
(277,835)	(138,953)	(92,769)	(38,700)	(665,617)
(74,014)	(6,271)	(4,813)	-	(85,098)
(91,414)	(47,113)	(5,836)	(520)	(149,096)
<u>740,700</u>	<u>101,952</u>	<u>42,992</u>	<u>40,073</u>	<u>985,554</u>
(27,266)	(24,138)	(4,338)	(4,189)	(62,995)
-	64,100	-	-	64,100
(2,278)	-	-	-	(2,278)
3,240	-	-	-	3,240
<u>(26,304)</u>	<u>39,962</u>	<u>(4,338)</u>	<u>(4,189)</u>	<u>2,067</u>
(353,120)	(34,364)	(10,727)	(48,378)	(479,402)
(330,000)	-	-	-	(330,000)
(122,449)	-	-	-	(122,449)
<u>(805,569)</u>	<u>(34,364)</u>	<u>(10,727)</u>	<u>(48,378)</u>	<u>(931,851)</u>
102,516	63,640	5,023	77,252	284,589
300,000	-	-	-	300,000
-	9,157	-	24,689	33,846
31,746	-	-	-	31,746
-	46,462	10,661	29,966	87,089
(325,000)	-	-	-	(325,000)
<u>109,262</u>	<u>119,259</u>	<u>15,684</u>	<u>131,907</u>	<u>412,270</u>
18,089	226,809	43,611	119,413	468,040
1,986,469	1,058,988	98,826	1,265,760	5,247,786
<u>\$ 2,004,558</u>	<u>\$ 1,285,797</u>	<u>\$ 142,437</u>	<u>\$ 1,385,173</u>	<u>\$ 5,715,826</u>

COON RAPIDS MUNICIPAL UTILITIES

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
RECONCILIATION OF OPERATING INCOME TO NET CASH		
FLows FROM OPERATING ACTIVITIES:		
Operating Income (Loss) (Exhibit B)	\$ 179,805	\$ 41,329
Adjustments to Reconcile Operating Income (Loss) to		
Net Cash From Operating Activities -		
Depreciation - Capital Assets	2,295	10,947
Depreciation - Municipal Building	-	-
Other Revenues (Expenses)	(176,958)	1,242
Gain (Loss) on Disposal of Assets	-	(3,952)
(Increase) Decrease in Operating Assets -		
Accounts Receivable	4,871	(5,152)
Inventories	180	137
Other Current and Prepaid Assets	(63)	-
Increase (Decrease) in Operating Liabilities -		
Accounts and Other Payables	3,316	1,393
Customer Deposits	-	-
Compensated Absences Payables	(388)	835
Payroll, Sales and Use Taxes Payable	-	-
Net Cash Flows from Operating Activities	<u>\$ 13,058</u>	<u>\$ 46,779</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT		
YEAR END TO SPECIFIC ASSETS INCLUDED ON THE		
STATEMENT OF NET ASSETS:		
Current Assets - Cash and Cash Equivalents	\$ 715,883	\$ 181,978
Cash and Cash Equivalents - June 30, 2008	<u>\$ 715,883</u>	<u>\$ 181,978</u>

See Independent Auditors' Report and Notes to Financial Statements

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 425,053	\$ 90,436	\$ 9,953	\$ (3,883)	\$ 742,693
325,022	28,591	36,437	45,667	448,959
9,953	11,868	-	-	21,821
110,106	(39,410)	(1,653)	(425)	(107,098)
-	(11,560)	-	-	(15,512)
6,293	(35,942)	(18,882)	(1,465)	(50,277)
(140,226)	20,337	483	-	(119,089)
(805)	(294)	(1,157)	138	(2,181)
571	36,307	17,528	(236)	58,879
3,240	-	-	-	3,240
2,554	1,408	(14)	285	4,680
(1,061)	211	297	(8)	(561)
<u>\$ 740,700</u>	<u>\$ 101,952</u>	<u>\$ 42,992</u>	<u>\$ 40,073</u>	<u>\$ 985,554</u>
\$ 2,004,558	\$ 1,285,797	\$ 142,437	\$ 1,385,173	\$ 5,715,826
<u>\$ 2,004,558</u>	<u>\$ 1,285,797</u>	<u>\$ 142,437</u>	<u>\$ 1,385,173</u>	<u>\$ 5,715,826</u>

COON RAPIDS MUNICIPAL UTILITIES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Organization and Nature of Activities -*

Coon Rapids Municipal Utilities (CRMU) is a component unit of the City of Coon Rapids, Iowa (the City) engaged in the activities of providing telephone services; cable TV, internet & pager services; electric, natural gas and water utilities services; and wastewater service. CRMU is governed by a three-member Board of Trustees, appointed by the Mayor with the approval of the City Council of the City of Coon Rapids, who are authorized to establish rates. CRMU is not liable for federal and state income or ad valorem taxes on property; however, payments in-lieu-of taxes and other contributions are made to the City.

These financial statements are presented in conformity with U.S generally accepted accounting principles (GAAP) applicable for proprietary funds of governmental entities. In reporting financial activities, CRMU applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, including statements and interpretations of the FASB issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

B. *Reporting Entity -*

Generally accepted accounting principles require CRMU to consider if it has oversight responsibility or control over any other legal entity. Control or dependence is determined based on budget adoption, taxing authority, funding, or appointment of the respective governing board. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. CRMU has no component units itself, but has determined that it is a component unit of the City of Coon Rapids.

C. *Shared Utility Plants -*

Common Transmission System

North Iowa Municipal Electric Cooperative Association (NIMECA), acting as agent for its participating members, including CRMU, has entered into an agreement with Corn Belt Power Cooperative to obtain for the benefit of its participating members a long-term right and access to electric transmission facilities, referred to as Common Transmission System (CTS) necessary to handle the combined needs of the participating members through undivided ownership interest in the capacity of transmission facilities. The costs associated with this agreement are allocated to the members based on their proportionate use of the shared transmission system. CRMU has recorded its share of these costs as capital assets in the Electric Utility Fund. The net book value at June 30, 2008, was \$655,959.

See Independent Auditors' Report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Neal 4 Generating Station

CRMU is one of fourteen owners of Unit 4 George Neal Generating Station which is managed by MidAmerican Energy under terms of the basic generating agreement between MidAmerican Energy and the owners. CRMU owns 0.521 percent, as a tenant-in-common, of the generating station for generating, purchasing, obtaining by exchange, or otherwise acquiring or transmitting electric power and energy. CRMU's cost of acquiring its share of this generating station was recorded as capital assets in the Electric Utility Fund. The net book value at June 30, 2008, was \$735,696.

The operator of both the Transmission System and Neal 4 shared utility plants have established accounts to which CRMU is required to pay its pro rata share, net of revenues earned, of operating and maintenance costs. Any disbursements from these accounts for operating and maintenance costs are reflected in the financial statements of CRMU. Separate financial statements for these shared utility plants are available in the offices of CRMU.

D. *Basis of Presentation -*

The accounts of CRMU are organized on the basis of proprietary enterprise funds, each of which is considered to be a separate accounting entity and each reported in a separate column in the financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts, which comprise its assets, liabilities, net assets, revenues and expenses, and debt service of the designated activity. CRMU reports the following major enterprise funds:

- Communication: Telephone Utility
- Communications: Cable TV, Internet & Pager Utility
- Electric Utility
- Natural Gas Utility
- Water Utility
- Wastewater Utility

E. *Measurement Focus and Basis of Accounting -*

Measurement focus refers to what is measured and basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

CRMU's Proprietary Funds financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. As such, the fund measurement objective is the determination of operating income, changes in net assets, financial position, and cash flows. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the related obligation is incurred. The applicable generally accepted accounting principles are those similar to businesses in the private sector.

See Independent Auditors' Report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing, producing, and delivering goods in connection with an enterprise's principal ongoing operations. The primary operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses of enterprise funds include the cost of sales, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

F. *Use of Estimates -*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. *Revenue Recognition -*

For all services except communication services, meters are read and bills are rendered on a cycle basis near the end of each month. Revenues based on meter readings are recorded close to the end of each month and, as such, the revenues earned from utilities delivered after meters are read to the end of the month are minimal and not estimated or recorded.

For telephone communication services, unbilled receivables for services delivered between scheduled billing dates are estimated and shown in the Communications: Telephone Utility column as other accounts receivable. For other communication services, unbilled services delivered between scheduled billing dates are minimal and not estimated or recorded.

H. *Cash and Cash Equivalents -*

The various enterprise funds of CRMU combine their cash and invested cash (nonnegotiable certificates of deposits) funds into several shared bank accounts at one financial institution. Interest earned on invested cash is divided among the funds.

For purposes of the statement of cash flows, invested cash and all short-term investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

I. *Accounts Receivable and Allowances -*

An estimate is made for allowances for doubtful accounts based on an analysis of the aging of accounts receivable and on historical write-offs net of recoveries. Additional specific amounts may be included based on credit risk as deemed appropriate by management. Accounts receivable are reported net of the allowance for doubtful accounts of \$7,556 at June 30, 2008.

J. *Inventories -*

Inventories are recorded as expense when consumed rather than when purchased. Material, supplies and fuel inventories are stated at cost, which does not exceed market. Cost is generally determined on a weighted-average basis. Electric Utility inventories include fuel for the local plant and its joint ownership share of the coal pile at the Neal 4 Generating Station. Gas Utility inventories include stored natural gas held for sale.

See Independent Auditors' Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The inventories at June 30, 2008, are comprised as follows:

All Material and Supplies	\$ 235,815
Electric Fund Fuel Inventories	83,985
Gas Fund Natural Gas Inventory	19,645
SO2 Allowances	77,375

K. Capital Assets -

Capital assets, which include utility plants, infrastructures, facilities and equipment are valued at historical cost. The cost of system renewals and betterments includes engineering, interest and other related costs. Preliminary and construction costs of projects not yet in service, if any, are shown in the financial statements as construction in progress. Maintenance and repairs which do not add to the capacity or efficiency of the asset are charged to operating expense.

Interest costs on debt are capitalized when proceeds are used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowings which are restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount of interest capitalized. No interest costs were capitalized for the year ended June 30, 2008, as no qualifying assets were constructed or acquired.

CRMU does not have a written policy for capitalizing assets. Management determines capitalization or expensing on an individual basis.

Capital assets are depreciated over the assets estimated useful lives using the straight-line method with one-half year convention. No depreciation is taken on construction in progress. The range of estimated useful lives by capital asset sub-categories is as follows:

Plant and Structures	20-50 Years
Sub-Station Improvements	20-35 Years
Transmission System Improvements	25-35 Years
Distribution System Improvements	25-35 Years
Tools and Shop Equipment	5-10 Years
Furniture and Office Equipment	5-10 Years
Vehicles	5 Years

L. Net Assets -

Net assets are shown in three components:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by outside creditors, others or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management (designations), which can be removed or modified.

See Independent Auditors' Report

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts shown as restricted net assets and the purpose of the restriction are as follows:

Restricted for	Amount
Revenue Notes Sinking	\$ 13,273
USDA Economic Development Grant	35,000
	<u>\$ 48,273</u>

M. *Expense Allocations -*

Expenses, except for those expenses determined to be for a specific fund or funds, are allocated to all funds based on a three-year rolling average of each fund's personnel hours. The rolling average is updated each pay period.

N. *Budgets and Budgetary Accounting -*

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTE 2 - CASH AND INVESTED CASH AND POOLED INVESTMENTS

CRMU considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash. The Utilities consider any non-negotiable certificates of deposits to be cash equivalents.

CRMU pool their deposits and investments and maintain records as to the separate utility systems share of the total balance. All deposits in banks at June 30, 2008, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CRMU is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit or savings accounts at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of drainage districts.

At June 30, 2008, the Electric Utility had investments in the Iowa Public Agency Investment Trust (IPAIT) held in the NIMECA CTS Improvement Fund, which are valued at an amortized cost of \$272,050. Deposits with IPAIT are not FDIC insured as it is not considered a financial institution. Instead, IPAIT is a common law trust established under Iowa law pursuant to Chapter 28E and Sections 331, 555 and 384.21, Iowa Code (1987), as amended, which authorizes Iowa public agencies to jointly invest monies pursuant to a joint investment agreement. IPAIT is registered under the Investment Company Act of 1940. Investments in IPAIT are not classified as to custodial credit risk.

Monies held for special purposes are limited to the use for which restricted and cannot be used for the general operations of the utility. The funds held for debt redemption are required by covenants of the electric capital notes payable. Upon payoff or refinancing of the capital notes payable, these funds will be released to unrestricted funds.

See Independent Auditors' Report

NOTE 3 - COMMUNICATIONS: TELEPHONE ACCOUNTS RECEIVABLE - OTHER

Other accounts receivable reported for the Communications: Telephone Utility includes delayed long distance and CAB's billings of \$22,174 for the telephone system. These amounts are net of an allowance for doubtful collections of zero. Management believes the zero allowance to be a reasonable and appropriate reduction of the CAB's receivables to their net realizable value.

NOTE 4 - LOANS RECEIVABLE

Loans to City of Coon Rapids

On April 11, 2002, the Board of Trustees of CRMU approved a resolution to provide financing from the Gas Utility and Wastewater Utility to the City of Coon Rapids to pay the cost of construction of a new bridge and reconstruction of the roadway approaching the bridge. CRMU is financing the loan pursuant to the provisions of Section 384.24A of the Code of Iowa.

The principal amount of the loan was \$350,000, with \$100,000 financed by the Gas Utility and \$250,000 financed by the Wastewater Utility. The general obligation note, dated May 31, 2002, specifies annual installments of \$42,088, including interest at 3.50% beginning June 1, 2003, with a final payment of \$42,093 on June 1, 2012. The City has the right to prepay principal of the note, in whole or in part, at any time prior to and in inverse order of maturity on terms of par and accrued interest.

Annual amounts receivable in the future for the loans are as follows:

Year Ending June 30,	Gas Utility		Wastewater Utility		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 10,480	\$ 1,546	\$ 26,197	\$ 3,865	\$ 36,677	\$ 5,411
2010	10,847	1,178	27,114	2,949	37,961	4,127
2011	11,226	799	28,063	2,000	39,289	2,799
2012	11,605	406	29,065	1,017	40,670	1,423
Totals	<u>\$ 44,158</u>	<u>\$ 3,929</u>	<u>\$ 110,439</u>	<u>\$ 9,831</u>	<u>\$ 154,597</u>	<u>\$ 13,760</u>

Revolving Loans Receivable -

City of Coon Rapids -

On September 28, 2007, Coon Rapids Municipal Electric Utility entered into a loan agreement with the City of Coon Rapids for rural economic development. The proceeds of this loan were used solely to finance the Assisted Living Facility in Coon Rapids, Iowa. This loan was made in association with the Federal Grant Agreement for rural economic development made with the Federal government from which the utility received \$300,000 for purposes of making these types of loans. The principal amount of the loan was \$300,000. The promissory note, dated September 28, 2007, specifies monthly installments of \$2,777.77, without interest, beginning September 1, 2008, with a final payment of \$2,778.61 on August 1, 2017. The City has the right to prepay principal of the note, in whole or in part, at any time prior to maturity.

See Independent Auditors' Report

NOTE 4 - LOANS RECEIVABLE (Continued)

Annual amounts receivable in the future for the loan are as follows:

Year Ending June 30,	Electric Utility
2009	\$ 27,777.70
2010	33,333.24
2011	33,333.24
2012	33,333.24
2013	33,333.24
After	138,889.34
Total	<u>\$ 300,000.00</u>

Loan to Coon Rapids Medical Center

On April 30, 2008, Coon Rapids Municipal Electric Utility entered into a loan agreement with the Coon Rapids Medical Center. The proceeds of this loan were used to purchase and renovate an office building for a dental practice to start-up in Coon Rapids. This loan was made in association with the Federal Grant Agreement for rural economic development made with the Federal Government. The principal amount of the loan was \$25,000. The promissory note, dated April 30, 2008, specifies annual payments of \$2,500 without interest for the first three years, commencing on April 30, 2009 through April 30, 2011, after which a 2% interest rate will be applied, and yearly payments will increase to \$2,703.93 for the remaining seven years of the loan.

Annual amounts receivable in the future for the loan are as follows:

Year Ending June 30,	Electric Utility	
	Principal	Interest
2009	\$ 2,500	\$ -
2010	2,500	-
2011	2,500	-
2012	2,354	350
2013	2,401	303
2014 and after	12,745	775
Totals	<u>\$ 25,000</u>	<u>\$ 1,428</u>

Loan to Coon Rapids Development Group

On January 17, 2002, the Board of Trustees of CRMU approved a resolution to provide financing from the Electric Utility to the Coon Rapids Development Group (a nonprofit organization) for a new residential development in the City of Coon Rapids. The Board approved a 10-year loan for \$125,000 at 2.50% interest. The CRMU board provided the funds in order to promote economic and community development in the Coon Rapids area and to create a sound economic base to serve as a foundation for future load growth and development for CRMU. The funds were advanced in May 2002. Repayment terms specify monthly principal payments of \$1,178 plus interest at 2.50% which began June 30, 2002. Extra payments were made during the fiscal year 2006-2007 and 2007-2008, which makes the final scheduled payment due August 30, 2008.

See Independent Auditors' Report

NOTE 4 - LOANS RECEIVABLE (Continued)

Annual amounts receivable in the future for the loan are as follows:

Year Ending June 30,	Electric Utility	
	Principal	Interest
2009	\$ 1,614	\$ 4

NOTE 5 - TAX INCREMENT FINANCING RECEIVABLE

On January 29, 2003, the Board of Trustees of CRMU passed a resolution to provide financing to Coon Rapids Development Group (a nonprofit group), to assist in two separate economic development projects. One project was for the development of land for commercial businesses with a total cost of \$138,281. The other project was for the development of land within the City of Coon Rapids for single and multiple-family dwellings with a total cost of \$306,641. The combined amount of \$444,922 was advanced in varying amounts from the Electric, Gas, Water and Wastewater Utilities Funds.

On April 5, 2004, CRMU and the City of Coon Rapids entered into a development agreement whereby the City agreed to make economic development rebate payments to CRMU totaling \$444,922. To the extent money is available in the City's Urban Renewal Tax Revenue Fund, the City will make rebate payments of approximately \$75,000 annually beginning June 2005 and continuing for six years or until the debt is paid. As the agreement carries no interest rate, the principal was discounted over an anticipated repayment period of six years at CRMU's nominal interest rate.

A repayment of \$100,000 was received during the current year. The annual amount receivable by the Utilities as principal, and the related amortized discount recognized as interest income, for the loan receivable in future years are expected to be as follows:

Ending June 30,	Electric Utility		Gas Utility		Water Utility	
	Principal	Discount	Principal	Discount	Principal	Discount
2009	\$ 6,660	\$ 380	\$ 34,223	\$ 1,949	\$ 8,024	\$ 457
2010	2,054	572	10,497	2,938	2,483	692
	<u>\$ 8,714</u>	<u>\$ 952</u>	<u>\$ 44,720</u>	<u>\$ 4,887</u>	<u>\$ 10,507</u>	<u>\$ 1,149</u>
Ending June 30,	Wastewater Utility		Total		Total	
	Principal	Discount	Principal	Discount	Discount	Payments
2009	\$ 22,051	\$ 1,256	\$ 70,958	\$ 4,042	\$ 75,000	
2010	6,670	1,883	21,704	6,085	27,789	
	<u>\$ 28,721</u>	<u>\$ 3,139</u>	<u>\$ 92,662</u>	<u>\$ 10,127</u>	<u>\$102,789</u>	

See Independent Auditors' Report

NOTE 6 - CAPITAL ASSETS

Capital asset categories and changes in each category of cost depreciation for the year ended June 30, 2008, are as follows:

	Balances Beginning of Year	Increases	Decreases	Balances End of Year
Utility Plant, Facilities and Equipment, at Cost				
Neal 4 Steam Production	\$ 1,830,023	\$ 23,961	\$ 6,610	\$ 1,847,374
Local Production Facilities	1,750,629	8,084	1,204	1,757,509
Transmission System	1,257,266	52,781	2,411	1,307,636
Distribution System	9,539,478	31,271	135,614	9,435,135
General Facilities Equipment	<u>1,957,914</u>	<u>134,903</u>	<u>202,504</u>	<u>1,890,313</u>
Total Cost	16,335,310	251,000	348,343	16,237,967
Less -				
Accumulated Depreciation	<u>7,476,858</u>	<u>448,959</u>	<u>341,920</u>	<u>7,583,897</u>
Cost Less Depreciation	8,858,452	(197,959)	6,423	8,654,070
Construction in Progress	336,934	162,185	443,944	55,175
Total Capital Assets, Net	<u>\$ 9,195,386</u>	<u>\$ (35,774)</u>	<u>\$ 450,367</u>	<u>\$ 8,709,245</u>

Total depreciation expense for CRMU for the year ended June 30, 2008, amounted to \$470,780, which includes \$21,821 in depreciation on the municipal building assets. Depreciation expense charged to operations and the estimated useful lives for each category of depreciable property by fund are as follows:

	Estimated Useful Life	Depreciation Expense
Communications Utility: Telephone - General Facilities and Equipment	5 - 40 Years	\$ 2,295
Total		<u>\$ 2,295</u>
Communications Utility: Cable TV, Internet and Pagers -		
Local Production Facilities	5 - 40 Years	\$ 7,775
General Facilities and Equipment	5 - 40 Years	3,172
Total		<u>\$ 10,947</u>
Electric Utility -		
Steam Production Plant - Neal 4	40 Years	\$ 53,814
Transmission Plant System	24 - 40 Years	47,008
Distribution Plant System	5 - 40 Years	173,014
General Facilities and Equipment	5 - 40 Years	<u>51,186</u>
Sub-total		325,022
Municipal Office Building and Equipment	5 - 40 Years	9,953
Total		<u>\$ 334,975</u>

See Independent Auditors' Report.

NOTE 6 - CAPITAL ASSETS (Continued)

	Estimated Useful Life	Depreciation Expense
Gas Utility -		
Local Production Facilities	40 Years	\$ 2,785
Distribution Plant System	5 - 40 Years	11,896
General Facilities and Equipment	5 - 40 Years	<u>13,910</u>
Sub-total		28,591
Municipal Office Building and Equipment	5 - 50 Years	11,868
Total		<u><u>\$ 40,459</u></u>
Water Utility -		
Local Production Facilities	25 - 20 Years	\$ 7,448
Transmission Plant System	40 Years	2,759
Distribution Plant System	5 - 50 Years	13,862
General Facilities and Equipment	5 - 40 Years	12,368
Total		<u><u>\$ 36,437</u></u>
Wastewater Utility -		
Local Production Facilities	20 - 40 Years	\$ 19,545
Distribution Plant System	4 - 40 Years	19,920
General Facilities and Equipment	5 - 40 Years	6,202
Total		<u><u>\$ 45,667</u></u>

NOTE 7 - MUNICIPAL BUILDING

The Electric Utility and Gas Utility each provided funds for construction of a municipal building for use as office space by CRMU and by the City for library and general office space. Based on square footage, CRMU utilizes 76.83 percent of the building and the City utilizes 23.17 percent. The City reimburses the Electric Utility and Gas Utility ratably for a share of building operating costs. The public uses 50 percent of the building as a meeting hall and pays a nominal rent for each usage. This public usage area is included in the portion allocated to CRMU.

For financial reporting purposes, all assets, liabilities, income and expenses of this building are prorated 43.16% to the Electric Utility and 56.84% to the Gas Utility. These percentages represent each Utility's share of the original capital contributed for construction of the building.

Municipal building assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and Improvements	10 - 50 Years
Equipment	5 - 40 Years

Building acquisition cost and accumulated depreciation activity for the year ended June 30, 2008, reported in each utility's financial statement are as follows:

See Independent Auditors' Report.

NOTE 7 - MUNICIPAL BUILDING (Continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Electric Utility Cost Share -				
Land	\$ 15,106	\$ -	\$ -	\$ 15,106
Buildings and Improvements	310,836	212,601	13,628	509,809
Equipment	<u>10,812</u>	<u>-</u>	<u>-</u>	<u>10,812</u>
Total Cost	336,754	212,601	13,628	535,727
Less -				
Accumulated Depreciation	195,226	9,953	4,929	200,250
Cost Less Depreciation	<u>\$ 141,528</u>	<u>\$ 202,648</u>	<u>\$ 8,699</u>	<u>\$ 335,477</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Gas Utility Cost Share -				
Land	\$ 19,894	\$ -	\$ -	\$ 19,894
Buildings and Improvements	409,470	212,602	18,161	603,911
Equipment	<u>14,207</u>	<u>-</u>	<u>-</u>	<u>14,207</u>
Total Cost	443,571	212,602	18,161	638,012
Less -				
Accumulated Depreciation	257,108	11,868	6,600	262,376
Cost Less Depreciation	<u>\$ 186,463</u>	<u>\$ 200,734</u>	<u>\$ 11,561</u>	<u>\$ 375,636</u>

NOTE 8 - COMPENSATED ABSENCES

CRMU employees are entitled to certain compensated absences based on length of employment. Vacation hours are accumulated on a calendar year basis with a limited amount of carryover to subsequent years allowed. Earned but unused vacation hours will be paid upon termination, retirement or death. The liability for compensated absences is computed based on rates of pay in effect at June 30, 2008. Sick leave is not paid on termination, retirement or death; and therefore, no accrual has been made for accumulated sick leave hours.

NOTE 9 - NOTES PAYABLESubordinate Series 2000 and 2003 Electric Revenue Capital Loan Notes

On August 5, 2003, CRMU issued \$1,925,000 of Subordinate Series 2003 Electric Revenue Capital Loan Notes to refund the Series 2000 electric capital loan notes.

The Subordinate Series 2000 Capital Loan Notes, issued on June 15, 2000, provided funds to pay the costs of improvements and extensions to the Electric Utility, including the purchase of three 1860 - kilowatt caterpillar engines. The outstanding balance of the Series 2003 capital loan notes at June 30, 2008, was \$1,280,000.

See Independent Auditors' Report.

NOTE 9 - NOTES PAYABLE (Continued)

The interest rate on the Subordinate Series 2003 Capital Loan Notes is 3.85% computed using a 360-day year. Monthly principal and interest payments are scheduled with the amount of the monthly installment of principal varying on an annual basis. The final payment is scheduled for June 15, 2015. The Series 2003 notes may be called for redemption and paid before maturity on any date from any funds, regardless of source, in whole or, from time to time, in part, in any order of maturity and within a maturity by lot. The terms of redemption shall be par plus accrued interest to the date of call with no penalty for repayment.

During the year ended June 30, 2008, CRMU was in compliance with the capital loan note provisions included in the original resolution for issuance of the Subordinate Series 2003 Capital Loan Notes as follows:

- A. The notes will only be redeemed from future earnings of the Electric Utility and note holders hold a lien on the future earnings of the fund. The notes are subordinate to the outstanding electric bonds dated May 15, 1998. The notes will not constitute general obligations of the City of Coon Rapids nor be payable in any manner by taxation. The City shall not, in any manner, be liable by reason of insufficient net earnings of the Electric Utility.
- B. Funds in the revenue fund shall first be disbursed to make all required deposits into funds created by the prior resolutions for the Series 1998 revenue bonds.
- C. The Electric Utility will set aside, in a separate sinking fund account on a monthly basis, the amount necessary to pay in full the installment of principal and interest coming due on the next payment date of the outstanding notes.
- D. According to the note covenants, if the amount on hand in the sinking fund exceeds the amount required by the note provisions, the excess is to be withdrawn and paid into the revenue fund.

Subordinate Series 2006 Electric Revenue Capital Loan Notes

On May 4, 2006, CRMU issued \$2,000,000 of Series 2006 Electric Revenue Capital Loan Notes to refund Series 1998 Electric Revenue Bonds issued on May 15, 1998. The 1998 Series Bonds provided funds to finance the construction of a hybrid fiber coaxial distribution system, tools and equipment; the construction of a new building, and to refund the final maturity of a previous electric revenue bond issuance. The outstanding balance of the Series 2006 capital loan notes at July 1, 2008, was \$1,610,000.

The interest rate on the Series 2006 Capital Loan Notes is 4.10% computed using a 360-day year. Monthly principal and interest payments are scheduled with the amount of the monthly installment of principal varying on an annual basis. The final payment is scheduled for June 15, 2014.

The Series 2006 notes may be called for redemption and paid before maturity on any date from any funds, regardless of source, in whole or, from time to time, in part, in any order of maturity and within a maturity by lot. The total benefit of this refunding is \$211,762, which amount will be recognized as a reduced interest expense over the payment period of the refunding notes.

See Independent Auditors' Report.

NOTE 9 - NOTES PAYABLE (Continued)

A summary of changes in long-term liabilities for the year ended June 30, 2008, is as follows:

	Balances July 1,	Increases	Decreases	Balances June 30,
Capital Loan Notes	\$ 1,405,000	\$ -	\$ (125,000)	\$ 1,280,000
Capital Loan Notes	1,815,000	-	(205,000)	1,610,000
Totals	<u>\$ 3,220,000</u>	<u>\$ -</u>	<u>\$ (330,000)</u>	<u>\$ 2,890,000</u>

A summary of the annual principal and interest requirements to maturity is as follows:

Year Ending June 30,	Series 2006 Revenue Capital Loan Notes		Series 2003 Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 240,000	\$ 61,500	\$ 110,000	\$ 47,339	\$ 350,000	\$ 108,839
2010	250,000	51,472	115,000	43,016	365,000	94,488
2011	260,000	41,034	125,000	38,412	385,000	79,446
2012	275,000	30,092	125,000	33,599	400,000	63,691
2013	285,000	18,629	135,000	28,610	420,000	47,239
2014	300,000	6,663	140,000	23,325	440,000	29,988
2015	-	-	530,000	11,052	530,000	11,052
Totals	<u>\$ 1,610,000</u>	<u>\$ 209,390</u>	<u>\$ 1,280,000</u>	<u>\$ 225,353</u>	<u>\$ 2,890,000</u>	<u>\$ 434,743</u>

NOTE 10 - JOINT USE AGREEMENT

On April 19, 2002, the Board of Trustees adopted and approved an intra-fund resolution between the Electric Utility and Communications: Telephone Utility titled "A Joint Use Agreement Under Iowa Code Chapter 28E". The Electric Utility financed and installed a communications distribution system for the use and support of electric operations. This communications distribution system is the sole property of the Electric Utility. Through the joint use agreement, the Communications: Telephone Utility is granted the right to use the three networks of the Electric Utility communications distribution system in varying percentages as specified in the agreement.

The term of the agreement is forty years, expiring June 30, 2041. For the term of the agreement, the Communications: Telephone Utility will pay to the Electric Utility, the sum of \$173,000 by June 30 each year beginning June 30, 2002. The arrangements and terms of the agreement were based upon applicable market value and economic conditions at that time, in sole reference to the joint use of the communications distribution system by the Electric Utility and Communications: Telephone Utility. The Communications: Telephone Utility is obligated to comply with all property tax filing requirements imposed under Iowa Code Chapter 433.

NOTE 11 - PAYMENT TO THE CITY

CRMU provides utility and other services to the City of Coon Rapids. CRMU contributes an amount equal to these utilities and services back to the City as in-lieu-of-tax payments. The total amount paid to the City for the year ended June 30, 2007, was \$149,096.

See Independent Auditors' Report.

NOTE 12 - PENSION AND RETIREMENT BENEFITS

CRMU contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and CRMU is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. CRMU's required contributions to IPERS for the years ended June 30, 2008, 2007 and 2006, were \$30,160, \$28,933 and \$27,904, respectively.

NOTE 13 - HEALTH INSURANCE SELF-INSURED

CRMU has a group health insurance policy which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. CRMU self-insures certain employee eligible medical costs that are not reimbursed by the health insurance provider because the medical cost does not exceed the deductible and maximum out-of-pocket policy provision. CRMU had eleven covered employees as of June 30, 2008.

The amount of the deductibles and maximum out-of-pocket expenses self-insured is as follows:

	Deductible		Maximum Out-of-Pocket	
	Single	Family	Single	Family
Employee	\$ 3,000	\$ 6,000	\$ 6,000	\$12,000

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

1. CRMU has a contract, effective to December 31, 2020, with the United States Department of Energy to provide CRMU firm electric power up to 2,395 kilowatts during any winter season month and up to 2,666 kilowatts during any summer season month, through December 31, 2010. This contract provides that the contract rate of delivery for firm power will be recalculated January 2011 for the kilowatts to be provided during the subsequent winter and summer seasons.
2. CRMU entered into a contract with its major transporter of natural gas in August 1993 that requires a capacity demand payment of approximately \$127,000 annually. The initial expiration date of the contract was through October 31, 1996, which was subsequently extended through October 31, 2008.
3. CRMU entered into another economic development loan on July 24, 2008, in the amount of \$21,000 with Guthrie Center Family Dentistry. The loan is to be used to finance purchase of dental equipment office in Coon Rapids, Iowa.
4. CRMU entered into a contract with Veenstra & Kimm, Inc. to provide professional engineering services related to a lift station and force main improvements for the Water system. The services which are contracted to cost \$39,350, for which \$2,090 has been paid by June 30, 2008, will likely be paid in the next fiscal year.

See Independent Auditors' Report.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

5. CRMU passed a resolution on June 21, 2007, authorizing the utilities to grant funds of \$100,000 plus \$15,000 of in-kind administrative labor to the City of Coon Rapids in conjunction with the Great Places Projects associated with the streetscape of the South 5th Avenue Entrance.
6. CRMU entered into a contract July 27, 2006, with Utility Service Co., Inc., engaging them to provide the professional service needed to maintain CRMU's 250,000 gallon water storage tank. The annual fee is \$19,991 per year until 2012 when it becomes \$11,288. Beginning in 2015 and each third year thereafter, the annual fee will be adjusted to reflect the current cost of service, and may be adjusted up or down by a maximum of 5% annually. This contract may be cancelled by CRMU if notification is received 90 days prior to the anniversary date. Unless a cancellation notice is received, the contract automatically renews each year.

NOTE 15 - MAJOR CUSTOMERS

A significant portion of the Electric Utility and Gas Utility revenue is derived from a single customer. This customer generated approximately 26.8% of the Electric Utility total sales to customers and 39.4% of the Gas Utility total sales to customers for the year ended June 30, 2007. In addition, a significant portion of the Telephone Utility revenue is derived from one customer. This customer generated approximately 10.4% of the total telephone sales.

NOTE 16 - CONCENTRATIONS

CRMU provides utility services to commercial and residential customers in a specified service area in and around the City of Coon Rapids, Iowa. Credit is granted to substantially all customers, all of whom are local business or residents. All new customers of CRMU are required to pay a meter deposit. The deposit is refundable, within twelve months, if their account balances have been paid on time during that period.

The tax increment financing receivable by various Utility Funds is subject to collection by the City of property taxes associated with the tax increment financing district located in the City of Coon Rapids, Iowa.

NOTE 17- RISK MANAGEMENT

CRMU is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks, except for loss of infrastructure, are covered by the purchase of commercial insurance. CRMU assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reflected in the balance sheets for cash and cash equivalents approximate the respective fair values due to the short maturities of those instruments. Management estimates that there are no significant differences between the fair value of financial instruments and the amounts shown as assets and liabilities on the statement of net assets.

NOTE 19 - CASH FLOW INFORMATION

Non-cash investing transactions occurred in relation to the discount of the Tax Increment Financing Receivable. The amount of the original discount and discount earned (reported as interest income) for each fund is as follows:

	Original Discount	2008 Discount Earned
Electric Utility	\$ 4,171	\$ 530
Gas Utility	21,433	2,725
Water Utility	5,026	639
Wastewater Utility	13,810	1,758
Totals	<u>\$ 44,440</u>	<u>\$ 5,652</u>

NOTE 20 - GRANT AGREEMENT

CRMU received a federal Rural Economic Development Grant for \$300,000, which required a local match of \$60,000 making a total of \$360,000 available to establish a revolving loan fund. During 2008, two loans were made for economic development totaling \$325,000 leaving \$35,000 of funds restricted for purposes of this revolving loan program.

See Independent Auditors' Report.

REQUIRED SUPPLEMENTARY INFORMATION

COON RAPIDS MUNICIPAL UTILITIES

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL (BUDGETARY BASIS)
PROPRIETARY FUNDS**

**REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008**

	Actual on Budget Basis	Budgeted Amounts Original and Final	Final Budget to Actual Variance
RECEIPTS:			
Use of Money and Property	\$ 284,589		
Charges for Service	4,667,184		
Debt Proceeds	-		
Grant Revenue	300,000		
Miscellaneous	<u>18,850</u>		
Total Receipts	5,270,623	\$ 5,264,721	\$ 5,902
DISBURSEMENTS:			
Business Type Activities -			
Operating Expenses	3,453,745		
Transfers to City of Coon Rapids	62,995		
Capital Outlay	250,998		
Economic Development Loans	325,000		
Principal Redemption	330,000		
Interest Payments	<u>121,833</u>		
Total Disbursements	<u>4,544,571</u>	<u>5,105,904</u>	561,333
Excess (Deficiency) of Receipts Over Disbursements	726,052	158,817	<u>\$ 567,235</u>
Balance, Beginning of Year	5,722,066	165,850	
Balance, End of Year	<u>\$ 6,448,118</u>	<u>\$ 324,667</u>	

See Independent Auditors' Report.

COON RAPIDS MUNICIPAL UTILITIES

BUDGET TO GAAP RECONCILIATION
PROPRIETY FUNDSREQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

	Budget Basis	Enterprise Funds Accrual Adjustments	GAAP Basis
Receipts/Revenues	\$ 5,270,623	\$ 205,482	\$ 5,476,105
Disbursements/Expense	4,544,571	(43,384)	4,501,187
Net	726,052	248,866	974,918
Beginning Net Assets	5,722,066	6,842,183	12,564,249
Ending Net Assets	<u>\$ 6,448,118</u>	<u>\$ 7,091,049</u>	<u>\$ 13,539,167</u>

See Independent Auditors' Report.

COON RAPIDS MUNICIPAL UTILITIES

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY REPORTING

In accordance with the Code of Iowa, the Coon Rapids City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds of the primary government and component units, including the operations of Coon Rapids Municipal Utilities (CRMU). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget for the City of Coon Rapids was not amended for the year ended June 30, 2008.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. CRMU's budget is included in the business type activities function. Functional disbursements required to be budgeted include disbursements for the primary government funds and enterprise funds, which would include CRMU's disbursements. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

OTHER SUPPLEMENTARY INFORMATION

COON RAPIDS MUNICIPAL UTILITIES

**SCHEDULE OF EXPENSES
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
PURCHASED ENERGY AND PROGRAMMING:		
Purchased Energy	\$ -	\$ -
Purchased Cable	-	121,874
Purchased Internet	-	52,857
Central Office Switching and Transmission	75,061	-
Purchase Telephone and Long Distance	84,778	-
Neal 4 Purchased Energy	-	-
Fuel	-	-
 Total Purchased Energy and Programming	 <u>\$ 159,839</u>	 <u>\$ 174,731</u>
PLANT OPERATIONS:		
Salaries and Wages	\$ 75	\$ 3,225
Utilities	11,572	5,945
Chemicals and Testing	-	-
Maintenance and Generators	-	340
Maintenance of Plant	-	-
 Total Plant Operations	 <u>\$ 11,647</u>	 <u>\$ 9,510</u>
TRANSMISSION OPERATIONS:		
Maintenance Neal 4 Transmission	\$ -	\$ -
 Total Transmission Operations	 <u>\$ -</u>	 <u>\$ -</u>
DISTRIBUTION OPERATIONS:		
Salaries and Wages	\$ 12,527	\$ 27,811
Line and Station Supplies	1,146	-
Safety Expense	836	1,190
Maintenance	1,544	1,123
Miscellaneous	-	-
 Total Distribution Operations	 <u>\$ 16,053</u>	 <u>\$ 30,124</u>

See Independent Auditors' Report.

SCHEDULE 3

(Continued)

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 262,291	\$ 934,760	\$ -	\$ -	\$ 1,197,051
-	-	-	-	121,874
-	-	-	-	52,857
-	-	-	-	75,061
-	-	-	-	84,778
369,192	-	-	-	369,192
3,685	-	-	-	3,685
<u>\$ 635,168</u>	<u>\$ 934,760</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,904,498</u>
\$ 6,845	\$ 442	\$ 15,091	\$ 2,711	28,389
19,981	24,409	18,859	10,990	91,756
-	-	9,163	504	9,667
-	-	-	-	340
351,464	-	28,625	587	380,676
<u>\$ 378,290</u>	<u>\$ 24,851</u>	<u>\$ 71,738</u>	<u>\$ 14,792</u>	<u>\$ 510,828</u>
\$ 89,238	\$ -	\$ -	\$ -	89,238
<u>\$ 89,238</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 89,238</u>
\$ 93,041	\$ 52,756	\$ 24,030	\$ 14,333	224,498
4,009	4,481	754	7	10,397
6,147	3,242	1,333	484	13,232
26,560	9,179	9,590	1,720	49,716
-	-	-	1,863	1,863
<u>\$ 129,757</u>	<u>\$ 69,658</u>	<u>\$ 35,707</u>	<u>\$ 18,407</u>	<u>\$ 299,706</u>

COON RAPIDS MUNICIPAL UTILITIES

SCHEDULE OF EXPENSES PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Communications: Telephone Utility	Communications: Cable TV, Internet & Pager Utility
CONSUMER SERVICE EXPENSES:		
Salaries and Wages	\$ 12,035	\$ 17,098
Office Supplies	3,392	2,308
Provision for Uncollectible Accounts	(15,754)	730
Total Consumer Service Operations	<u>\$ (327)</u>	<u>\$ 20,136</u>
ADMINISTRATIVE AND GENERAL EXPENSES:		
Salaries and Wages	\$ 8,004	\$ 11,372
Telephone	737	1,048
Outside Professional Services	25,791	12,077
Legal and Public Notices	145	1,156
Property Insurance	2,984	-
Regulatory Commission Expense	3,461	155
Advertising	10,498	450
Trustee Salaries	323	459
Travel and Training	651	240
Dues and Assessments	4,225	292
Energy Conservation Expense	-	-
Miscellaneous	-	-
Vehicle Operating Expense	1,147	742
General Maintenance	446	935
Property Taxes	7,054	-
Employer Payroll Taxes	4,594	4,607
Employee Benefits	11,308	19,377
Total Administrative and General Expenses	<u>\$ 81,368</u>	<u>\$ 52,910</u>
DEPRECIATION:		
Depreciation Neal 4 Plant	\$ -	\$ -
Depreciation Transmission System	-	-
Depreciation Distribution System	-	-
Depreciation General Plant	2,295	3,172
Depreciation Production Plant	-	7,775
Depreciation Municipal Building	-	-
Total Depreciation Expense	<u>2,295</u>	<u>10,947</u>
Less Depreciation Allocated to Nonoperating Expense	-	-
Total Operating Depreciation Expense	<u>\$ 2,295</u>	<u>\$ 10,947</u>

See Independent Auditors' Report

SCHEDULE 3

Business Type Activities - Enterprise Funds

Electric Utility	Gas Utility	Water Utility	Wastewater Utility	Total
\$ 56,076	\$ 27,665	\$ 18,083	\$ 6,664	\$ 137,621
7,759	3,552	2,212	1,364	20,587
(1,413)	101	146	94	(16,096)
<u>\$ 62,422</u>	<u>\$ 31,318</u>	<u>\$ 20,441</u>	<u>\$ 8,122</u>	<u>\$ 142,112</u>
\$ 37,615	\$ 17,161	\$ 10,788	\$ 4,430	\$ 89,370
3,564	1,580	994	402	8,325
14,236	6,624	3,472	2,297	64,497
865	829	195	80	3,270
26,061	8,257	4,480	1,652	43,434
3,527	2,684	157	210	10,194
3,181	1,732	876	222	16,959
1,516	692	435	175	3,600
2,642	2,043	1,803	3,581	10,960
6,960	3,150	533	-	15,160
1,298	10,421	-	-	11,719
806	773	-	-	1,579
5,905	2,701	1,627	660	12,782
14,724	11,011	1,753	717	29,586
23,717	-	-	-	30,771
74,181	35,143	22,353	4,065	144,943
7,068	3,475	1,706	6,045	48,979
<u>\$ 227,866</u>	<u>\$ 108,276</u>	<u>\$ 51,172</u>	<u>\$ 24,536</u>	<u>\$ 546,128</u>
\$ 53,814	\$ -	\$ 7,448	\$ 19,545	\$ 80,807
47,008	-	2,759	-	49,767
173,014	11,896	13,862	19,920	218,692
51,186	13,910	12,368	6,202	89,133
-	2,785	-	-	10,560
9,953	11,868	-	-	21,821
<u>334,975</u>	<u>40,459</u>	<u>36,437</u>	<u>45,667</u>	<u>470,780</u>
9,953	11,868	-	-	21,821
<u>\$ 325,022</u>	<u>\$ 28,591</u>	<u>\$ 36,437</u>	<u>\$ 45,667</u>	<u>\$ 448,959</u>

COON RAPIDS MUNICIPAL UTILITIES

SCHEDULE OF INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2008

TYPE OF COVERAGE - ALL UTILITY SYSTEMS	Expiration Date	Limits of Coverage (Each Occurrence/ Aggregate)
Property Coverage (Replacement Costs) - Fire and Extended Coverage (\$5,000 Deductible, 90% Co-Insurance) -	4/1/2009	
Peak Shaving Plant and Contents		\$ 111,804
Water Treatment Plant and Contents		275,339
Water Tower and Contents		759,764
Cable Television Building and Contents		170,740
Maintenance Garage Building, Contents and Equipment		1,048,804
Municipal Building - Building and Contents		1,509,330
Telecommunications Building - Building and Contents		1,405,990
Telecommunications Building - Generator Plant		3,909,003
Gas Shop Building and Contents		58,582
Switch Gear Transformers Building and Contents		530,746
Iron Hill Sub Station Building		176,705
Inland Marine -	4/1/2009	
Contractors Equipment (\$250 Deductible)		449,877
Electronic Data Processing (\$500 Deductible)		3,000
Scheduled Property Floater (\$250 Deductible)		103,000
Comprehensive General Liability -	4/1/2009	
Bodily Injury, Personal Injury and/or Property Damage		1,000,000/2,000,000
Fire Damage		100,000
Medical Expense		5,000
Employee Benefits		100,000
Products and Completed Operations		2,000,000/2,000,000
Comprehensive Auto Policy -	4/1/2009	
Bodily Injury and/or Property Damage		1,000,000
Uninsured/Underinsured Motorists		50,000
Collision (\$1,000 Universal Motorists Deductible)		ACV
Comprehensive (No Deductible)		ACV
Workmen's Compensation	4/1/2009	Statutory
Umbrella (Wrongful Act) Liability (\$10,000 Deductible)	4/1/2009	3,000,000/3,000,000
Linebacker Liability (\$1,500 Deductible)	4/1/2009	1,000,000/1,000,000
Boiler and Machinery Breakdown	4/1/2009	2,000,000
Crime -		
Employee Theft per Person (\$500 Deductible)		2,000/200,000
Computer Fraud (\$500 Deductible)		500/50,000
Manager		400,000
Assistant Manager		200,000
Comptroller		200,000

See Independent Auditors' Report.

COON RAPIDS MUNICIPAL UTILITIES

**SCHEDULE OF INSURANCE COVERAGE
FOR THE YEAR ENDED JUNE 30, 2008**

TYPE OF COVERAGE - ALL UTILITY SYSTEMS	Expiration Date	Limits of Coverage (Each Occurrence/ Aggregate)
Commercial Output -		
Personal Property (\$5,000 Deductible)	4/1/2009	\$ 21,224
Electric Generating and Switchgear (\$5,000 Deductible)	4/1/2009	3,887,779
Extra Expense	4/1/2009	50,000

See Independent Auditors' Report.

OTHER REPORTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Coon Rapids Municipal Utilities
Coon Rapids, Iowa

We have audited the accompanying financial statements of Coon Rapids Municipal Utilities, a component unit of the City of Coon Rapids, Iowa, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Coon Rapids Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Coon Rapids Municipal Utilities' internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Utilities' internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utilities' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether Coon Rapids Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Coon Rapids Municipal Utilities' operations for the year ended June 30, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Coon Rapids Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit Coon Rapids Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the trustees, officials, employees and customers of Coon Rapids Municipal Utilities, and other parties to whom the Coon Rapids Municipal Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

O'DONNELL, FICENEC, WILLS & FERDIG, LLP

By _____
Certified Public Accountant

November 21, 2008

COON RAPIDS MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2008

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which could have a material effect on the financial statement amounts.
- (d) No material weaknesses in internal control were noted.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

Instances of Non-Compliance:

No Matters were noted.

Significant Deficiencies:

No Matters were noted.

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- III-A-08 **Official Depositories** - The Board of Trustees has approved a resolution naming official depositories. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2008.
- III-B-08 **Certified Budget** - Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements did not exceed the certified budget during the fiscal year.
- III-C-08 **Questionable Disbursements** - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-08 **Travel Expenses** - No disbursement of Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- III-E-08 **Business Transactions** - Business transactions between Coon Rapids Municipal Utilities and Utilities' officials are immaterial and meet the guidelines of the Code of Iowa.

COON RAPIDS MUNICIPAL UTILITIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2008

PART III: OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING: (Continued)

III-F-08 **Bond Coverage** - Surety bond coverage of Coon Rapids Municipal Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that coverage is adequate for current operations.

III-G-08 **Trustee Minutes** - No transactions were found that we believe should have been approved in the Board of Trustees minutes but were not.

III-H-08 **Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Coon Rapids Municipal Utilities' investment policy were noted.

III-I-08 **Revenue Bonds and Notes** - No instances of non-compliance with the electric revenue bond and capital loan note requirements for the year ended June 30, 2008, were noted.

III-J-08 **Telecommunication Services** - No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.